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*7 April 1958*

MEMORANDUM FOR: Deputy Assistant Director for Research and Reports

FROM: Chief, Economic Research Area

SUBJECT: ERA Contribution to "Semi-Annual Report to the President's Board of Consultants on Foreign Economic and Geographic Intelligence Activities"

REFERENCE: Your Memorandum of 28 March 1958 on the same subject

I. Economic and Geographic Intelligence Production

Research continued during the period on the analysis of the factors causing the slowing-down in the rate of economic growth in the Sino-Soviet Bloc countries and the nature of Bloc responses to this development. This research indicates tentatively that the lowered rate of growth in the USSR was not due entirely to temporary factors, but, more significantly, to a slight shift in priorities in favor of consumption over investment and perhaps also to an increased relative cost of resource development. With respect to China, however, the lower rate of growth in 1957 appears to be a temporary phenomena, and our research indicates that the Chinese economy is capable of continued rapid industrialization, subject, however, to a critical uncertainty concerning the ability of the agricultural sector to *while simultaneously providing the necessary surplus for export to pay for imports of machinery.* Progress also continued on our efforts to measure the size and structure of Bloc economies. A comprehensive set of national accounts for the USSR in 1955 has been completed and work has progressed on the calculation of ruble-dollar ratios, which will be used in the forthcoming National Intelligence Estimate of Soviet Capabilities. A set of accounts has also been prepared for China, and work is currently underway to develop similar data for the European Satellites.

- 2 -

The principal new problem arising in the period stems from the apparent acceleration of scientific development and military technology in the USSR. The ERA is attempting to contribute to an assessment of the economic costs of this development through a rigorous all-source analysis of the Soviet budget. Similar analyses are being made to improve estimates of military expenditures, including expenditures on atomic energy. In connection with recent National Intelligence Estimates of the Soviet ICBM and capabilities in the field of guided missiles, the ERA was the principal provider of intelligence on the factors affecting operation capabilities, including production, deployment, logistics, training, and costs.

In implementation of revised NSC economic defense policy, extensive economic intelligence support was provided at the request of EDAC for the first comprehensive review of the multilateral trade controls since 1954. ORR economic analysts have supported intensively the substantive preparation of the US delegation to the COCOM meetings currently being held in Paris for the revision of controls on trade between the COCOM countries and the Soviet Bloc. ORR commodity specialists also are providing direct technical and economic intelligence support to the delegation during the course of the discussions. Substantial attention continued to be given also to economic coverage of the Bloc's economic penetration activities in under-developed areas during the reporting period.

During the period considerable research on Soviet agriculture was <sup>accomplished</sup> done, including completion of a community-wide paper, now before the EIC Secretariat, on "Policies, Performance and Prospects of Soviet Agriculture" and preparation

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- 3 -

of a paper for DD/P on the USSR meat and milk program to be used for counter-propaganda purposes. Discussions also continued with the Department of Agriculture concerning the possibility of using PL 80 funds for external research projects on Bloc agriculture.

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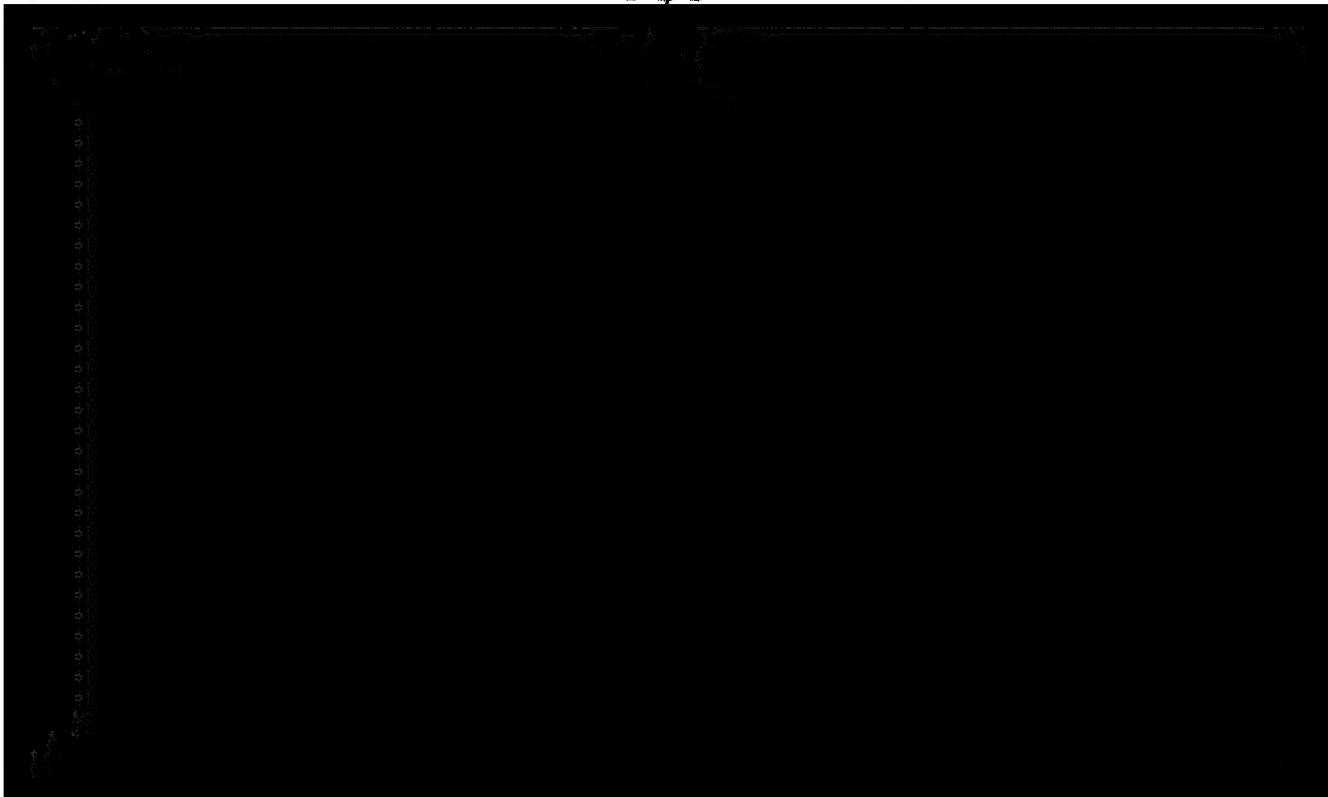
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25X1B1a It is believed that this [REDACTED] has resulted in seriously inadequate coverage of economic intelligence, and efforts are underway to expand this source, particularly with respect to defense expenditures and the economic aspects of atomic energy.

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- 4 -



### III. Dissemination and Utilization of ORR Products

The extensive economic and military-economic data on the Soviet Union provided to the Gaither Committee, noted in our previous report, was the basis for a key part of the Committee's final report. Economic intelligence on Soviet military expenditures was supplied to the <sup>Director of the Bureau of the Budget, the</sup> Joint Chiefs of Staff, the Department of the Army, and the Department of State. In addition, direct economic intelligence support on important national security issues was provided to the Economic Defense Advisory Committee and the Operations Coordinating Board. Among the more notable appreciations of ORR's economic intelligence activities received since 1 October 1957 were commendations from the Director of Targets, ACS/Intelligence, Department of the Air Force, for intelligence support in the compilation of Target Data Inventory; from

- 5 -

the Assistant Secretary of Defense for International Affairs in appreciation of the bi-weekly reports on "Sino-Soviet Bloc Economic Activities in Under-developed Areas"; from Mr. Robert Gaither, <sup>W. Ruman</sup> Chairman of the Gaither Committee, commenting on the great value of the ORR report on Soviet Defense Expenditures.

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